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May 23, 2002

Ex Parte

Ms Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

Re: CC Docket Nos. 96-262, 94-1 and 99-200

Dear Ms Dortch:

Bob Blau and the undersigned, both representing BellSouth, met on May 21, 2002 with Matthew Brill from Commissioner Abernathy's office, Kyle Dixon from Chairman Powell's office and Jordan Goldstein from Commissioner Copp's office, all separately, and on May 22, 2002 with Dan Gonzalez from Commissioner Martin's office in connection with the above referenced proceedings. During these meetings, BellSouth discussed the Subscriber Line Charge ("SLC") cost review proceeding and also discussed the recovery of exogenous cost related to the implementation of thousand-block number pooling ("TBNP").

In connection with the SLC cost study, BellSouth explained why the HCPM outputs and state TELRIC rates do not measure BellSouth's actual retail cost related to residential and single-line business services; discussed BellSouth's forwarding-looking cost of \$6.99 per line and its 2001 actual cost of \$7.39 per line as justification for the scheduled SLC cap increases; and that the residential and single-line business SLC rates are currently subsidized and the scheduled increases in the SLC cap, based on the most currently available data, will eliminate \$1.2 billion in subsidies provided mainly by multi-line business customers through either the multi-line business SLC rates or the multi-line business Presubscribed Interexchange Carrier Charge ("PICC").

In these meetings, BellSouth also provided a revenue and rate summary developed by the CALLS companies during the CALLS proceeding. This summary shows the projected changes in revenues and rates over the life of the CALLS plan as the SLC caps increase. One of the objectives of the CALLS order was to remove subsidies from interstate access charges. The scheduled increases in the residential and single-line

business SLC cap are necessary to achieve that goal. The Commission should act to affirm the scheduled increases.

In connection with the recovery of the exogenous cost related to the implementation of TBNP, BellSouth explained in these meetings that the Petition for Reconsideration filed by AT&T on May 6, 2002 in Docket Number 99-200 was both untimely and unfounded. AT&T has petitioned for reconsideration of the Commission's *Third NRO Order on Reconsideration*. In its petition AT&T asks the Commission to reconsider its decision to permit ILECs to recover the costs of TBNP through access charges. The Commission did not decide this issue in the *Third NRO on Reconsideration*. The Commission decided the TBNP cost recovery issue in the *Third Report and Order and Second Order on Reconsideration*. Petitions for reconsideration of the *Third Report and Order and Second Order on Reconsideration* were due to be filed at the Commission by March 14, 2002.

While the Commission in its order has already addressed AT&T's cost recovery arguments, AT&T, nevertheless, asks the Commission to reconsider its decision. AT&T's concern that most of the cost recovery through access charges would fall on AT&T and other interexchange carriers is factually incorrect. Based on estimates provided by the large price cap companies of their TBNP exogenous costs and how those costs would be recovered under the Commission's current rules, most of these costs in the first year of the two year recovery period would be recovered from end users rather than carriers if the residential and single-line business SLC caps are raised as scheduled. In the second year of the recovery, an even greater portion of the costs would be recovered from end users when the PICCs are virtually eliminated. Reconsideration of the Commission's order based on AT&T petition is not only procedurally improper but also unnecessary.

In accordance with Section 1.1206, I am filing two copies of this *ex parte* and request that you place it in the record of the proceedings identified above. If you should have any questions please contact me at 202-463-4114.

Sincerely,



Whit Jordan

#### Attachments

cc: Kyle Dixon  
Matthew Brill  
Jordan Goldstein  
Daniel Gonzalez  
Dorothy Attwood  
Tamara Priess

**Cost Review Proceeding for Residential and Single-Line  
Business Subscriber Line Charges – CC Docket Nos. 96-262  
and 94-1**

- **HCPM does not measure BellSouth's actual cost**
  - **HCPM does not use BellSouth specific inputs**
  - **HCPM only provides a method for comparing hypothetical cost differences between companies**
  
- **State TELRIC rates do not measure BellSouth's actual retail costs**
  - **TELRIC methodology is designed to measure wholesale costs**
  - **TELRIC does not include costs associated with retail residential and single-line business services**
  
- **BellSouth's cost data demonstrates that the scheduled SLC increases are warranted**
  - **BellSouth's forwarding-looking cost is \$6.99**
  - **BellSouth's actual 2001 cost per line based on ARMIS data is \$7.39**
  
- **Residential and single-line business SLC rates currently are subsidized**
  - **Increasing the SLC caps as scheduled will eliminate \$1.2 billion in subsidy provided by multi-line business SLC and PICC rates and CCL charges and promote competition**

**CALLS Model - Industry Revenue and Rate Summary**

**Revenues Per Element**

| Company   | SLC           |               |               | PICC          |             |               | CCL         |             | Residual |
|-----------|---------------|---------------|---------------|---------------|-------------|---------------|-------------|-------------|----------|
|           | PR/SLB        | NPR           | MLB           | PR/SLB        | NPR         | MLB           | Originating | Terminating | TIC      |
| July 1999 | 4,157,219,545 | 1,310,985,211 | 4,113,896,494 | 1,206,488,254 | 392,216,748 | 1,194,161,529 | 562,607,203 | 166,374,635 | 250,210  |
| July 2000 | 5,165,418,648 | 1,331,240,656 | 4,166,436,335 | 0             | 0           | 1,168,315,795 | 254,165,859 | 2,666,739   | 62,502   |
| July 2001 | 5,848,508,623 | 1,340,110,977 | 4,029,234,017 | 0             | 0           | 615,489,222   | 106,051,829 | 1,524,568   | 0        |
| July 2002 | 6,701,645,228 | 1,324,159,899 | 3,752,030,664 | 0             | 0           | 125,833,063   | 5,768,546   | 550,072     | 0        |
| July 2003 | 6,967,176,287 | 1,309,950,674 | 3,577,446,296 | 0             | 0           | 50,360,026    | 2,077,631   | 62,824      | 0        |
| July 2004 | 6,963,717,676 | 1,309,054,253 | 3,575,821,466 | 0             | 0           | 50,360,026    | 2,077,631   | 62,824      | 0        |

**Charges Per Unit**

| Company          | SLC           |               |               | PICC          |               |               | CCL               |                   | Residual          |
|------------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|-------------------|-------------------|
|                  | PR/SLB        | NPR           | MLB           | PR/SLB        | NPR           | MLB           | Originating       | Terminating       | TIC               |
| July 1999        | \$3.50        | \$5.82        | \$6.87        | \$1.01        | \$1.76        | \$2.39        | \$0.002801        | \$0.000503        | \$0.000000        |
| July 2000        | \$4.35        | \$5.91        | \$6.96        | \$0.00        | \$0.00        | \$2.33        | \$0.001265        | \$0.000008        | \$0.000000        |
| July 2001        | \$4.92        | \$5.95        | \$6.73        | \$0.00        | \$0.00        | \$1.23        | \$0.000528        | \$0.000005        | \$0.000000        |
| <b>July 2002</b> | <b>\$5.64</b> | <b>\$5.88</b> | <b>\$6.27</b> | <b>\$0.00</b> | <b>\$0.00</b> | <b>\$0.25</b> | <b>\$0.000029</b> | <b>\$0.000002</b> | <b>\$0.000000</b> |
| July 2003        | \$5.86        | \$5.82        | \$5.98        | \$0.00        | \$0.00        | \$0.10        | \$0.000010        | \$0.000000        | \$0.000000        |
| July 2004        | \$5.86        | \$5.81        | \$5.98        | \$0.00        | \$0.00        | \$0.10        | \$0.000010        | \$0.000000        | \$0.000000        |

## First Year Estimate of Pooling Cost Recovery (\$M)

|                           | TBNP Exogenous Cost | Recovery from End User | Recovery from Carrier |
|---------------------------|---------------------|------------------------|-----------------------|
| BellSouth                 | \$ 32.1             | \$ 1.6                 | \$ 30.5               |
| Qwest                     | 62.0                | 43.0                   | 19.0                  |
| Sprint                    | 52.8                | 25.4                   | 27.4                  |
| SBC (very rough estimate) | 37.5                | 37.5 <sup>(2)</sup>    | 0.0 <sup>(3)</sup>    |
| Verizon (FN 1)            |                     |                        |                       |
| East                      | 34.1                | 24.9                   | 9.2                   |
| West                      | N/A                 | N/A                    | N/A                   |
| Total                     | \$218.50            | \$132.40<br>60.59%     | \$86.10<br>39.41%     |

FN 1: Numbering Exogenous amounts are estimates, Data not yet filed with FCC

FN2: Sprint added the CCL revenues to PICCs and divided by total to come up with a single point of analysis, vs listing all jurisdictions.

**SBC Notes:**

(1) PICC rates will reach zero in Ameritech states only to the extent that we receive the \$6 primary residential cap

(2) The full Thousand Block Number Pooling Adjustment will impact EUCL only subject to Note 1.

(3) IXC's will not be impacted on PICC by SBC's TBNP adjustment, subject to note 1 but will be impacted as CLEC purchasers for resold lines.